

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name CITY OF WEST BRANCH WASTEWATER TREATMENT PROJECT	County OGEMAW
Audit Date 06/30/2005	Opinion Date 09/21/2005	Date Accountant Report Submitted to State: 12/23/2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

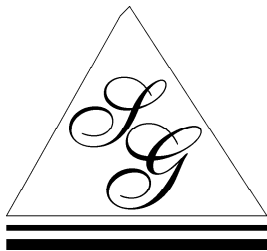
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 317 W. HOUGHTON AVE, PO BOX 159	City WEST BRANCH	State MI	ZIP 48661
Accountant Signature  Donald W. Brannan CPA		Digitally signed by Stephenson, Grack and Co., P.C. DN: cn=Stephenson, Grack and Co., P.C., c=US Date: 2005.02.14 14:30:02 -05'00'	



Stephenson Gracik & Co., P.C.

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CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
OGEMAW COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2005

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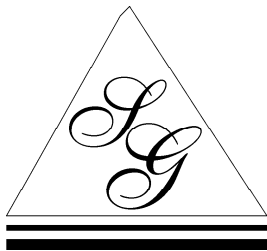
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September 21, 2005

Independent Auditors' Report

Members of City Council
City of West Branch
West Branch, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities of each major fund, and the aggregate remaining fund information of the City of West Branch, Michigan, Wastewater Treatment Project Funds as of and for the year ended June 30, 2005, which collectively comprise the City of West Branch Wastewater Treatment Project Funds' basic financial statements, as listed in the index. These financial statements are the responsibility of the City of West Branch's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities of each major fund, and the aggregate remaining fund information of the City of West Branch, Wastewater Treatment Project Funds as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2005, on our consideration of the City of West Branch's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of West Branch Wastewater Treatment Project Funds' basic financial statements. The other data is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of West Branch Wastewater Treatment Project Funds. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Gracik & Co., P.C.

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City of West Branch

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of West Branch Wastewater Treatment Project (the Project) financial performance provides an overview of the Project's financial activities for the year ended June 30, 2005. The intent of this discussion and analysis is to look at the Project's financial performance as a whole. The City of West Branch Wastewater Treatment Project operates as three enterprise funds which are shown as a blended component unit in the City of West Branch basic financial statements.

Financial Highlights

- The Project's assets exceeded its liabilities by \$586,605 (*net assets*).
- The Project's total net assets increased by \$99,723.
- The Project's governmental fund reported an ending fund balance of \$0 this year, a decrease of \$14.

Overview of the Financial Statements

The financial statements are organized so the reader can understand the Project as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The Project's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the Project as a whole. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Project that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Project at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or functions of the Project's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.



Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Project with certain limited exceptions. The comparisons of direct expenses with program revenues identify the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Project.

Capital assets are listed for the City of West Branch Wastewater Treatment Project. These assets are comprised of infrastructure, buildings, furniture, fixtures, radios/electronic equipment, computer systems, vehicles and land owned by the City. The Wastewater Treatment Project capital assets total \$21,767.

Fund Financial Statements

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental, Proprietary and Fiduciary*.

Governmental Funds:

Governmental funds are those through which most governmental functions of the Project are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The Project does not have any major governmental funds.

Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Project's enterprise funds may be used to account for any activity for which a fee is charged to external users (citizens) for goods and services. The following are the Project's major enterprise funds:

- Sewer Fund – This fund is used to record the revenues and expenses for the operation of the sewer system.
- Collection Replacement Fund – This fund is used to account for financial resources set aside for the maintenance and replacement of the sewer lines.
- Plant Replacement Fund – This fund is used to account for financial resources set aside for the maintenance and replacement of the wastewater treatment plant.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the Project *government-wide* and *fund* financial statements. Exhibit I provides an expansive and thorough view of various aspects of the audited financial statements.

Government-Wide Financial Analysis

Summary of Net Assets:

The following summarizes the net assets of the City of West Branch Wastewater Treatment Project at June 30, 2005 and 2004:

Net Assets Summary

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>2005</u>	<u>2004</u>
Current Assets	\$ 0	\$ 571,689	\$ 571,689	\$ 569,318
Capital Assets – net	<u>0</u>	<u>21,767</u>	<u>21,767</u>	<u>0</u>
Total Assets	<u>0</u>	<u>593,456</u>	<u>593,456</u>	<u>569,318</u>
Current Liabilities	0	6,506	6,506	12,286
Long-Term Liabilities	<u>0</u>	<u>345</u>	<u>345</u>	<u>70,150</u>
Total Liabilities	<u>0</u>	<u>6,851</u>	<u>6,851</u>	<u>82,436</u>
Net Assets				
Investment in capital assets	0	21,767	21,767	0
Restricted	0	0	0	14
Unrestricted	<u>0</u>	<u>564,838</u>	<u>564,838</u>	<u>486,868</u>
Total Net Assets	<u>\$ 0</u>	<u>\$ 586,605</u>	<u>\$ 586,605</u>	<u>\$ 486,882</u>

Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for the year ended June 30, 2005 and 2004.

Generally speaking, the Project's net assets represent the difference between assets and liabilities. The City of West Branch, through its governing body, i.e., the City Council, has taken a sensible approach regarding capital asset acquisition and amortization of the incurred debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Project or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

The City Council has prudently set aside funds to offset potential personnel and/or administrative liabilities. It is the City's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>2005</u>	<u>2004</u>
Program Revenues:				
Charges for Services	<u>\$ 0</u>	<u>\$ 496,077</u>	<u>\$ 496,077</u>	<u>\$ 482,744</u>
General Revenues:				
Investment Earnings and Miscellaneous	0	23,969	23,969	14,111
Contributions From Local Units	53,631	0	53,631	0
Transfers In (Out)	<u>17,186</u>	<u>(82,228)</u>	<u>(65,042)</u>	<u>(69,843)</u>
Total General Revenues and Transfers	<u>70,817</u>	<u>(58,259)</u>	<u>12,558</u>	<u>(55,732)</u>
Total Revenues	<u>70,817</u>	<u>437,818</u>	<u>508,635</u>	<u>427,012</u>
Program Expenses:				
Interest on Long-Term Debt	831	0	831	5,775
Sewer Services	<u>0</u>	<u>408,081</u>	<u>408,081</u>	<u>341,407</u>
Total Program Expenses	<u>831</u>	<u>408,081</u>	<u>408,912</u>	<u>347,182</u>
Change in Net Assets	<u>\$ 69,986</u>	<u>\$ 29,737</u>	<u>\$ 99,723</u>	<u>\$ 79,830</u>

Business-Type Activities

The Project's *Business-Type activities* are limited to the Sewer Fund, Collection Replacement Fund, and Plant Replacement Fund. These funds are used to maintain the City's sewer system. The funds are supported primarily by user fees for sewer services.

Financial Analysis of City Funds

As noted earlier in this report, the Project uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

Governmental Funds

Governmental funds are those through which most governmental functions of the City of West Branch Wastewater Treatment Project are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance.

The governmental fund of the Project accounts for the accumulation of resources for and the payment of debt. The governmental fund is a non-major fund of the City of West Branch Wastewater Treatment Project.

This year's City of West Branch Wastewater Treatment Project audit, following GASB 34 format, shows one governmental fund. This fund is maintained by the City Treasurer as a separate unit in the General Ledger.

Enterprise Funds

The Project's enterprise funds provide the same type of information found in the government-wide financial statements. Commonly, departments such as the Sewer Fund, Collection Replacement Fund and Plant Replacement Fund comprise these funds. The Statement places such funds under the caption of *Propriety Funds* under the appropriate statements, i.e., *Statement of Net Assets*, *Statement of Cash Flows*, etc. More specific detail is seen in Exhibits F, G and H.

Budgetary Highlights

The Project does not currently have any General or Special Revenue Funds. Therefore, budgetary comparison schedules are not required or presented in the financial statements.

Capital Asset and Debt Administration

Capital Assets

Capital assets are defined by the Project as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The Project's infrastructure consists of sewer lines. Improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

The City of West Branch was required to present infrastructure assets prospectively after the adoption of GASB 34. Therefore, improvements or additions to sewer lines will be capitalized as costs are incurred. There were \$21,767 in additions for the year ended June 30, 2005.

Long-Term Debt

The Long-Term debt of the City of West Branch Wastewater Treatment Project, as noted on the financial statements contained herein, is comprised of debt related to direct business transactions by the Project.

The infrastructure debt is recorded in the City of West Branch Wastewater Treatment Project, but the infrastructure assets are shown on the County's Statement of Net Assets until such time as the bonds are paid off. The final settlement of the bonds will be reconciled in the fiscal year ending June 30, 2006, and the title will transfer to the City. The infrastructure assets will be removed from the County's statement of net assets, and added to the City's statement of net assets.

Economic Factors

The West Branch region has realized significant growth in the last ten years. However, developable property within the City of West Branch is limited resulting in a tax base that is not keeping up with increased operation and maintenance cost.

Lower investment earnings and tentative state and federal economies will provide future challenges.

City budgetary operations will continue to be stressed in the upcoming years, especially in the environment of declining state aid and stagnant tax revenues. These factors will cause the City to adopt a fiscally conservative budgetary approach for the upcoming years.

Requests for Information

This financial report is designed to provide a general overview of the City of West Branch's Wastewater Treatment Project finances for all those with an interest in the Project's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City Treasurer
City of West Branch
121 N. Fourth Street
West Branch, MI 48661
989-345-0500

CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
Ogemaw County, Michigan

STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and cash equivalents (Note 2)	\$ 14	\$ 443,113	\$ 443,127
Receivables:			
Accounts receivable	0	129,328	129,328
Internal balances	(14)	(752)	(766)
Capital assets, net (Note 4)	<u>0</u>	<u>21,767</u>	<u>21,767</u>
Total Assets	<u>0</u>	<u>593,456</u>	<u>593,456</u>
<u>Liabilities</u>			
Accounts payable	0	2,014	2,014
Escrow account	0	4,492	4,492
Long-term liabilities:			
Due within one year	<u>0</u>	<u>345</u>	<u>345</u>
Total Liabilities	<u>0</u>	<u>6,851</u>	<u>6,851</u>
<u>Net Assets</u>			
Investment in capital assets	0	21,767	21,767
Unrestricted	<u>0</u>	<u>564,838</u>	<u>564,838</u>
Total Net Assets	<u>\$ 0</u>	<u>\$ 586,605</u>	<u>\$ 586,605</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
Ogemaw County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenue</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>		
			<u>Primary Government</u>		
			<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Primary Government</u>					
Governmental activities:					
Interest on long-term debt	\$ 831	\$ 0	\$ (831)	\$ 0	\$ (831)
Business-type activities:					
Sewer services	393,435	496,077	0	102,642	102,642
Sewer collection replacement	14,646	0	0	(14,646)	(14,646)
Total business-type activities	408,081	496,077	0	87,996	87,996
Total primary government	\$ 408,912	\$ 496,077	(831)	87,996	87,165
<u>General Revenues:</u>					
Investment earnings			0	13,082	13,082
Other			0	10,887	10,887
Contributions from local units			53,631	0	53,631
Transfers			17,186	(82,228)	(65,042)
Total general revenues and transfers			70,817	(58,259)	12,558
Change in net assets			69,986	29,737	99,723
Net assets - beginning of year			(69,986)	556,868	486,882
Net assets - end of year			\$ 0	\$ 586,605	\$ 586,605

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
Ogemaw County, Michigan

BALANCE SHEET -
DEBT SERVICE FUND
June 30, 2005

ASSETS

Cash and cash equivalents (Note 2)

\$ 14

LIABILITIES

Due to other funds

\$ 14

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - DEBT SERVICE FUND
For the Year Ended June 30, 2005

Revenue

Contributions from local units	\$	53,631
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Expenditures

Principal		70,000
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Interest		831
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Total expenditures		70,831
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Excess of revenue over (under) expenditures		(17,200)
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Other Financing Sources (Uses)

Operating transfers in		17,200
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Operating transfers out		(14)
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Total other financing sources (uses)		17,186
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Excess of revenue and other sources over (under) expenditures and other uses		(14)
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Fund balance - beginning of year		14
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Fund balance - end of year	\$	0
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
Ogemaw County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Total net change in fund balance - governmental fund	\$	(14)
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Amounts reported for governmental activities in the statement of activities are different because:

Principal repayments on bonds are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental fund consists of:

Bonds payable	<u>70,000</u>
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Change in net assets of governmental activities	\$	<u>69,986</u>
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
Ogemaw County, Michigan

STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
June 30, 2005

	Major Funds			
		Collection	Plant	
	Sewer Fund	Replacement	Replacement	Totals
		Fund	Fund	
<u>Assets</u>				
Cash and cash equivalents (Note 2)	\$ 16,069	\$ 210,482	\$ 216,562	\$ 443,113
Receivables:				
Accounts receivable	129,328	0	0	129,328
Due from other funds	14	0	0	14
Capital assets, net (Note 4)	21,767	0	0	21,767
Total assets	<u>167,178</u>	<u>210,482</u>	<u>216,562</u>	<u>594,222</u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	1,068	946	0	2,014
Escrow account	4,492	0	0	4,492
Due to other funds	766	0	0	766
Compensated absences - current	345	0	0	345
Total current liabilities	<u>6,671</u>	<u>946</u>	<u>0</u>	<u>7,617</u>
Noncurrent liabilities:				
<u>Net Assets</u>				
Invested in capital assets	21,767	0	0	21,767
Unrestricted	138,740	209,536	216,562	564,838
Total Net Assets	<u>\$ 160,507</u>	<u>\$ 209,536</u>	<u>\$ 216,562</u>	<u>\$ 586,605</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
Ogemaw County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
ENTERPRISE FUNDS
For the Year Ended June 30, 2005

	Major Funds			
		Collection	Plant	
	Sewer Fund	Replacement Fund	Replacement Fund	Totals
<u>Operating Revenue</u>				
Charges for services	\$ 496,077	\$ 0	\$ 0	\$ 496,077
Miscellaneous	10,887	0	0	10,887
Total operating revenue	506,964	0	0	506,964
<u>Operating Expenses</u>				
Salaries and wages	110,828	0	0	110,828
Fringe benefits	54,375	0	0	54,375
Administration	62,500	0	0	62,500
Building and equipment maintenance	58,838	0	0	58,838
Contractual services	48,458	14,646	0	63,104
Equipment rental	15,903	0	0	15,903
Insurance	8,291	0	0	8,291
Operating supplies and expenses	18,877	0	0	18,877
Professional development	635	0	0	635
Telephone	1,677	0	0	1,677
Utilities	75,156	0	0	75,156
Other	2,939	0	0	2,939
Total operating expenses	458,477	14,646	0	473,123
Operating income (loss)	48,487	(14,646)	0	33,841
<u>Non-Operating Revenue</u>				
Interest income	1,797	5,719	5,566	13,082
Income (loss) before operating transfers	50,284	(8,927)	5,566	46,923
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	14	0	0	14
Operating transfers out	(17,200)	0	0	(17,200)
Net operating transfers	(17,186)	0	0	(17,186)
Change in net assets	33,098	(8,927)	5,566	29,737
Net assets - beginning of year	127,409	218,463	210,996	556,868
Net assets - end of year	\$ 160,507	\$ 209,536	\$ 216,562	\$ 586,605

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
Ogemaw County, Michigan

STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For the Year Ended June 30, 2005

	Major Funds			
	Sewer Fund	Collection Replacement Fund	Plant Replacement Fund	Total
<u>Cash Flows From Operating Activities</u>				
Receipts from customers	\$ 499,154	\$ 0	\$ 0	\$ 499,154
Payments for operating expenses	(465,008)	(13,700)	0	(478,708)
Net cash provided (used) by operating activities	<u>34,146</u>	<u>(13,700)</u>	<u>0</u>	<u>20,446</u>
<u>Cash Flows From Noncapital Financing Activities</u>				
Operating subsidies and transfers from (to) other funds	<u>(16,688)</u>	<u>0</u>	<u>0</u>	<u>(16,688)</u>
<u>Cash Flows From Capital and Related Financing Activities</u>				
Acquisition and construction of capital assets	<u>(21,767)</u>	<u>0</u>	<u>0</u>	<u>(21,767)</u>
<u>Cash Flows From Investing Activities</u>				
Cash received from interest	<u>1,797</u>	<u>5,719</u>	<u>5,566</u>	<u>13,082</u>
Net increase (decrease) in cash and cash equivalents	(2,512)	(7,981)	5,566	(4,927)
Cash and cash equivalents at beginning of year (Note 1)	<u>18,581</u>	<u>218,463</u>	<u>210,996</u>	<u>448,040</u>
Cash and cash equivalents at end of year (Note 1)	<u>\$ 16,069</u>	<u>\$ 210,482</u>	<u>\$ 216,562</u>	<u>\$ 443,113</u>
<u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</u>				
Operating income (loss)	\$ 48,487	\$ (14,646)	\$ 0	\$ 33,841
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Change in assets and liabilities:				
Accounts receivable, net	(7,810)	0	0	(7,810)
Accounts and other payables	(6,726)	946	0	(5,780)
Accrued expenses	<u>195</u>	<u>0</u>	<u>0</u>	<u>195</u>
Net cash provided (used) by operating activities	<u>\$ 34,146</u>	<u>\$ (13,700)</u>	<u>\$ 0</u>	<u>\$ 20,446</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of West Branch conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies.

A. Description of City Operations

The City of West Branch is governed by an elected council with a City Manager overseeing daily operations. The City provides various services to its residents such as law enforcement, fire protection, community enrichment and human services. These financial statements include all the funds maintained by the City of West Branch in connection with the Wastewater Treatment Project. The City of West Branch Wastewater Treatment Project operates as three enterprise funds and is shown as a blended component unit in the City of West Branch basic financial statements.

B. Description of Project

The Enterprise and Debt Service Funds of the Wastewater Treatment Project were established to account for the operation and maintenance of a sanitary sewer system for the City of West Branch and respective surrounding townships. The project was financed by a bond issue from Rural Development through Ogemaw County. The bond issue is intended to be repaid from sewer service charges to the system customers.

C. Basis of Presentation

The Project's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government -Wide Financial Statements

The statement of net assets and the statement of activities display information about the Project as a whole. The statements distinguish between those activities of the Project that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support.

The statement of net assets presents the financial condition of the business-type activities of the Project at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Project's business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Project, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Project.

CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

Fund Financial Statements

During the year, the Project segregates transactions related to certain Project functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Project at this more detailed level. The focus of proprietary fund financial statements is on major funds. Each major fund is presented in a separate column.

D. Fund Accounting

The Project uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and proprietary.

Governmental Funds

Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Project's enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the Project's major enterprise funds:

Sewer Fund – This fund is used to record the revenues and expenses for the operation of the sewer system.

Collection Replacement Fund – This fund is used to account for financial resources set aside for the maintenance and replacement of the sewer lines.

Plant Replacement Fund – This fund is used to account for financial resources set aside for the maintenance and replacement of the wastewater treatment plant.

CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the Project are included on the statement of net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenue, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the Project finances and meets the cash flow needs of its enterprise activities.

F. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and enterprise fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; proprietary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Project, available means expected to be received within sixty days after year end.

CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Basis of Accounting (Continued)

Nonexchange transactions, in which the Project receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements, and donations. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized. The Project does not currently receive any nonexchange revenues.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: charges for services, fines and forfeitures, and interest.

Deferred Revenues

Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

G. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Project are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value. Repurchase agreements and certificates of deposit which are reported at cost, approximate fair value. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

H. Accounts Receivables

Receivables at June 30, 2005, consist of accounts (fees). All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The allowance for doubtful accounts at June 30, 2005 was \$0 for the primary government.

CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Interfund Receivables and Payables

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances".

J. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Project's infrastructure consists of sewer lines. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Sewer Lines	25 to 50 years
-------------	----------------

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund statements. In general, payables and accrued liabilities that will be paid from the governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Project or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Project's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise funds. For the Project, these revenues are user fees for sewer usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

O. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Project's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 14</u>	<u>\$ 443,113</u>	<u>\$ 443,127</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts)	<u>\$ 443,127</u>

CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments:

The City Council has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Project to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Project's deposits are in accordance with statutory authority.

NOTE 3 - PENSION EXPENSE

The City of West Branch participates in the Municipal Employees Retirement System (MERS), a defined benefit pension plan covering substantially all employees. The total pension expense charged to this system was approximately \$11,000.

Data concerning the actuarial status of the system, as applicable to the Wastewater Treatment Project, is not determinable.

NOTE 4 - CAPITAL ASSETS

<u>Business-Type</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated:				
Infrastructure	<u>\$ 0</u>	<u>\$ 21,767</u>	<u>\$ 0</u>	<u>\$ 21,767</u>

CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE 5 - RISK MANAGEMENT

The Project is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Project continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 6 - UNEMPLOYMENT COMPENSATION

The Project is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Project must reimburse the Employment Agency for all benefits charged against the Project. No liabilities were due as of June 30, 2005.

OTHER DATA

CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
Ogemaw County, Michigan

SUPPLEMENTAL INFORMATION FOR RURAL DEVELOPMENT
For the Year Ended June 30, 2005

1. Our audit was conducted in accordance with generally accepted auditing standards.
2. Our letter on internal control can be found on page 25.
3. The accounting records maintained by the City for the City of West Branch Wastewater Treatment Project are satisfactory. We did not have any recommendations for improvement in the letter on internal control.
4. The City's physical control of the assets is satisfactory.
5. The City is in financial compliance with the loan agreement. Certain reporting requirements will be met with the issuance of this report.
6. The financial reports included in this audit report are in agreement with the accounting records of the City.
7. Deposit funds of the project are in financial institutions insured by the federal government and other uninsured funds, but are subject to the overall limit of the City of West Branch. See Note 2 for additional information.
8. The types and amounts of insurance coverage are as follows for the project:

<u>Type of Coverage</u>	<u>Policy Number</u>	<u>Coverage Amount</u>	<u>Expiration Date</u>
Property	CPP045-3645	\$ 6,850,000	7-1-2005
Personal Property	CPP045-3645	150,000	7-1-2005
Liability	CPP045-3645	2,200,000	7-1-2005
Fidelity Bond	817101-06212888	500,000	8-1-2005

9. The City of West Branch is exempt from federal income tax.
10. No unsatisfactory conditions were noted during the audit.
11. An aging of the accounts receivable as of June 30, 2005 is as follows:

<u>Total</u>	<u>0-30</u>	<u>31-60</u>	<u>61-90</u>	<u>91+</u>
\$ 129,328	\$ 128,418	\$ 24	\$ 0	\$ 886

12. The total number of current customers is as follows:

Residential	750
Commercial customers	<u>313</u>
Total	<u>1,063</u>

CITY OF WEST BRANCH
WASTEWATER TREATMENT PROJECT
Ogemaw County, Michigan

SUPPLEMENTAL INFORMATION FOR RURAL DEVELOPMENT
For the Year Ended June 30, 2005

13. The following is a list of the names and addresses of all members of the governing body, as appropriate, with term of office for the City of West Branch.

Todd Thompson Present through 12/31/05
217 N. Fourth Street
West Branch, Michigan 48661

Russ Jackson Present through 12/31/05
201 S. Valley Street
West Branch, Michigan 48661

Greg Clark Present through 12/31/05
158 N. Second Street
West Branch, Michigan 48661

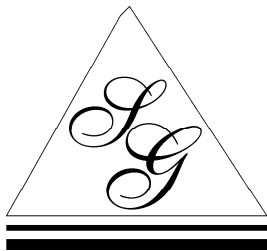
Chad Lucas Present through 12/31/05
607 Lindsay Street
West Branch, Michigan 48661

Paul Frechette Present through 12/31/07
415 State St.
West Branch, Michigan 48661

William Ehinger Present through 12/31/07
221 S. First Street
West Branch, Michigan 48661

Kim Ervans Present through 12/31/07
140 N. Second St.
West Branch, MI 48661

14. No further information is necessary for full disclosure.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

September 21, 2005

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the City Council
City of West Branch
Ogemaw County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities of each major fund and the aggregate remaining fund information of the City of West Branch Wastewater Treatment Project Funds, Ogemaw County, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City of West Branch Wastewater Treatment Project Funds' basic financial statements and have issued our report thereon dated September 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of West Branch Wastewater Treatment Project Funds' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of West Branch Wastewater Treatment Project Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted one immaterial instance of noncompliance that we have reported to management of the City of West Branch in a separate letter dated September 21, 2005.

This report is intended solely for the information and use of management, City Council, the Michigan Department of Treasury, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.